

Equipment Capital Outlay - \$1,000 Unit Cost, Excess of One-year Life, Repair/Replace

As a general guideline, if the unit cost of the item is \$1,000 or more and the useful life is estimated at more than one year, the purchase will be considered capital outlay, regardless of whether it is a replacement item or purchase of additional equipment. Furthermore, if the nature and/or quantity of the item(s) allow(s) economical control, then the unit cost may be less than \$1,000 and, if the one-year useful life criteria is met, the expenditure is considered capital outlay. A district may establish a policy to use a unit cost of less than \$1,000 to determine capital outlay expenditures. Purchases of items not meeting the cost, controllability, or useful life criteria are properly charged to current operating expense.

Districts may also differentiate an equipment item from a supply item via the repair or replacement criterion. An equipment item is more likely to be repaired when some of its parts are worn out whereas the supply item is simply replaced.

Acquisition cost of equipment is the net invoice price of the equipment, including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired. Other charges, such as the cost of installation, transportation, duty or protective in-transit insurance, shall be included or excluded from the unit acquisition cost in accordance with the district's regular accounting practices (see also Section L, Capital Expenditures and Accounting for Capital Assets).

<u>CRITERIA FOR DISTINGUISHING EQUIPMENT FROM SUPPLY ITEMS</u>					
(Listed in Priority Order)					
YES	⇐	Lasts more than one year	⇒	NO	AT FIRST "NO", THE ITEM IS CONSIDERED A <u>SUPPLY</u> ITEM
⇓					
YES	⇐	Repair rather than replace	⇒	NO	
⇓					
YES	⇐	Independent unit rather than being incorporated into another item	⇒	NO	
⇓					
YES	⇐	Cost of tagging and inventory a small percent of item cost	⇒	NO	
⇓					
YES	⇐	Exceeds minimum dollar value established by State or other governmental unit (with due regard for group control for some items). Current minimum is \$1,000.00, <u>however, the district may establish a lower limit.</u>	⇒	NO	
⇓					
⇓					
ITEM IS CONSIDERED <u>EQUIPMENT</u>					

Equipment Items

An equipment item is any instrument, machine, apparatus, or set of articles that meets all of the following criteria:

- It retains its original shape, appearance, and character with use.
- It does not lose its identity through fabrication or incorporation into a different or more complex unit or substance.
- It is nonexpendable, that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to repair the item than to replace it with an entirely new unit.
- Under normal conditions of use, including reasonable care and maintenance, it can be expected to serve its principal purpose for more than one year.

Capitalization of Software

In the past software has always been treated as a supply item unless purchased as an integral part of a computer system, in which case the total cost of the computer system, including software, would be capitalized.

However, in the current computer-driven environment, software has become a more important part of the electronic equation than the computer itself, and in many cases, the more expensive component. Therefore, the determination of what constitutes an asset in today's electronic world must be considered.

Software costs should be treated as a fixed asset that can be capitalized and depreciated over time as any other asset based on the following criteria:

- Meets the state capitalization threshold of \$1,000.
- Lasts more than one year.
- Software faults (bugs) like equipment faults or failures are more likely to be repaired than replaced.
- The typical capitalization requirement that the equipment be an independent unit, rather than being incorporated into another item, does not apply in the case of software.
- The value of software and normal licensing requirements may take the place of typical inventory tagging procedures.